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SUBJECT: CAMPAIGN FINANCE: VIEW FROM THE WESTERN CAPE

REF: PRETORIA 2617

Classified By: Consul General Alberta Mayberry, Reason 1.4 (b)

¶1. (C) Summary: South African political parties are in full fundraising mode as next year's national election nears, and Western Cape campaign finance watchers and insiders see little change from past elections, at least for established parties. The ruling African National Congress (ANC), already bolstered by public money, will hit up traditional corporate backers and will also rely heavily on its own investment arm, Chancellor House, and those of their union allies. Newly established Congress of the People, however, will not have the luxury of public money and will face an uphill battle to compete against the ANC, which spent upwards of R200 million (\$20 million) in the 2004 national election. End summary.

ANC AS RICH AND OPAQUE AS EVER

¶2. (C) The ANC, despite its recent troubles, will still be able to rely on rich, and well-hidden, sources of funding for next year's national elections, according to Hennie van Vuuren and Collette Schulz-Herzenberg of the Institute for Security Studies Corruption and Governance Program in Cape Town. Both told Econoff on December 9 that despite its recent turmoil, the ruling party is still well-placed to dominate its opponents financially. The party can rely on public funding from the Independent Electoral Committee (IEC), which in 2007 amounted to about R50 million (\$5 million), allocated to the party in proportion to its national representation (see Ref A for further details).

¶3. (C) Van Vuuren noted that since the ANC spent about R200 million on the 2004 national elections, this was only the tip of the iceberg. He noted that the party will likely rely heavily upon its investment arm, Chancellor House. Formed in 2003 by former Treasurer-General Mendi Msimang (husband of embattled Minister in the President Manto Tshabalala-Msimang), Chancellor House consists of seven separate holding companies focusing on areas such as financial services, mining, telecommunications, and property development. The ANC did not even acknowledge the firm's existence until 2006, but Msimang at last year's Polokwane party conference reported that the group now controlled assets of R1.75 billion (\$175 million).

¶4. (C) Given that Chancellor House's operations are so opaque, Schulz-Herzenberg noted that it is impossible to know the degree to which the investment arm contributes to the party or funds its campaign operations. Similarly, the lack of transparency in the funding arena gives ISS and other party watchers little idea of how much the ANC will be able to raise. That said, given the large sums under Chancellor House's control, its potential is tremendous. Van Vuuren noted the ANC Youth League's Lembede Holdings is another holding company the party can call upon for money.

UNIONS ALSO LOOK TO BE A PLAYER

¶5. (C) Van Vurren and University of Cape Town Political Science Professor Zweli Jolobe also told Econoff that the

investment arms of the ANC's union allies also look to be key players in fundraising. Jolobe noted that Congress of South African Trade Unions (COSATU) leaders has called on the federation's 22 affiliates to contribute to the ANC's campaign, something he attributes to their close ties to Jacob Zuma. Most of COSATU's affiliates, as well as the congress itself, have investment arms, although their operations are opaque and their financial holdings -- though clearly sizable -- are difficult to gauge. It also is unclear whether these funds have any disclosure regulations or limitations that might hinder their ability to contribute to campaigns.

COPE FACES HUGE FUNDRAISING CHALLENGES

16. (C) Unlike South Africa's established opposition parties, COPE receives no public funding, which will pose a significant challenge to its electoral prospects next year. Omar Valley, a former Western Cape Safety and Security official who is now in business, was a longtime ANC backer who -- like many in the Western Cape -- now supports COPE. He told Econoff on December 12 that the party is essentially "broke" at the moment. Valley said Western Cape COPE backers had reached out to him recently to try and drum up business support for the party, particularly to raise R350,000 (\$35,000) to organize its mid-December national congress. Valley said he put them in touch with one businessman who provided R100,000, but there are few other donors at present.

17. (C) Valley noted that although COPE has a few rich backers (businesspeople Saki Macozoma and Wendy Luhabe, among others) and a great deal of popular support, it has to contend with the ANC's well-oiled patronage system. The ruling party has tight fundraising networks that ensure party backers have access to big tenders and contracts. No one wants to anger the ANC by being seen as contributing to its big opponent, and despite opacity in party funding, there is a great deal of worry about retribution if the ANC finds out. So for this election cycle, Valley thinks COPE will have to ride its rich donors for the vast bulk of their funding.

COMMENT

18. (C) Opacity in South Africa's political party funding system has long been a bete noir of civil society groups and thinktanks, like ISS, who view it as a threat to democracy and as opening the door to corruption. Unfortunately, change to the system does not seem to be in the offing any time soon, as none of the major political parties have a vested interest in disclosing funders. Meanwhile, although the sums are, and will be, unclear, South Africa's political parties look set to spend hundreds of millions of rands on next year's polls.

MAYBERRY